

Specialised Investment Fund

Hunting season for returns, either side of the market

A new asset class, combining the sophistication of PMS and AIF with the protective guardrails and tax efficiency of MFs, is being introduced.

by Sanket Dhanorkar

Indian investors are set to get front-row tickets to explore the newest investing arena in town. Several asset managers are rolling out offerings in the specialised investment fund (SIF) space—dubbed as the ‘new asset class’.

Last week, qsif (from Quant Mutual Fund) unveiled the country’s first SIF—qsif Equity Long-Short Fund—and is lining up more offerings. Altiva SIF (from Edelweiss MF) is set to roll out a hybrid long-short fund soon, followed by Magnum SIF (from SBI MF). Others are also expected to bring out their offerings. Let’s explore the investment proposition behind SIF and what investors can expect from these offerings.

The long and short of it

This new investment vehicle seeks to bridge the gap between mass-market mutual funds and portfolio management services (PMS) or alternate investment funds (AIF) that cater to the well-heeled. At one end, mutual funds are run in a patrolled environment, with their protective guardrails, offering wealth creation within tightly defined confines.



These cater to smaller investors, which can be bought for as low as ₹100. On the other hand, PMS and AIF strategies operate with more flexibility, running differentiated strategies that pursue potentially higher payoffs. But these are beyond the reach of ordinary investors, with minimum investment thresholds of ₹50 lakh (for PMS) and ₹1 crore (for AIF).

At a lower ticket size of ₹10 lakh (₹1 lakh for accredited investors), SIF aims to capture opportunities that were previously the exclusive preserve of the rich, but under the watchful gaze of the market regulator. It will be run under the mutual fund structure as a pooled savings vehicle, supervised by a trustee.

They combine the trust and oversight of traditional funds with the flexibility and firepower of alternative strategies, opening up an entirely new playbook for wealth creation,” says Sandeep Tandon, CEO, Quant Mutual Fund. Besides, these will be taxed similar to mutual funds, wherein investors don’t incur any tax until they sell their investment. PMS investors, on the other hand, incur tax on every purchase or sale of securities. “This product gives you MF taxation and the advantage of an AIF,” observes Joseph Thomas, CEO, Emkay Wealth Management.

The significant shift will be in the flexibility to play both sides of the market. While mass-market mutual funds are restricted to ‘long-only’ strategies, SIFs will be able to pursue both ‘long’ and ‘short’ bets. This means asset managers don’t just bet on a rising market, but also on a falling market. They gain from long positions in stocks that go up, but also gain from short positions in stocks that go down.

Experts say this added flexibility adds a new dimension for wealth creation, reducing dependence on a rising market for fetching healthy outcomes. The investor gets to participate in the upside and doesn’t have to endure the downside associated with long-only strategies. “For the first time, skilled managers can go long on growth stories while also shorting opportunities they expect to underperform, using derivatives to capture returns on both sides of the market”, points out Tandon. Thomas asserts, “The use of long-short strategies allows for more tools to generate alpha and manage downside risk than a traditional MF.”

Climbing the risk ladder?

This dexterity is achieved via an assorted bag of tricks. SIFs are permitted to harness a wide range of derivative strategies to pursue opportunities across rising, falling and sideways markets. Unlike traditional mutual funds, these can take exposure to derivatives for purposes other

Several AMCs have launched SIF platform

SIF brand	AMC/Fund house
qsif	Quant MF
Platinum SIF	Mirae Asset MF
Altiva SIF	Edelweiss MF
Diviniti SIF	ITI MF
Magnum SIF	SBI MF
Arudha SIF	Bandhan MF
Endurance SIF	DSP MF

SIF is positioned distinctly

	SIF	MF	PMS	AIF
Minimum investment	₹10 lakh	₹100	₹50 lakh	₹1 crore
Taxation at investor level	Equity: LTCG at 12.5% after 1 year		Taxed in the hands of investor at each transaction level.	Nil
	Debt: At slab rate			
	Other: LTCG @ 12.5% after 2 years			
Taxation at fund level	Nil		Nil	Cat III - LTCG @12.5% + Business Income @ 30% + surcharge + cess
Strategies	Long-short	Primarily long-only	Tailored (long-only)	Diverse (PE, hedge funds)
Leverage & derivatives	No leverage permitted. Short exposure through unhedged derivative up to 25% + derivatives for hedging & rebalancing.	No leverage permitted. Derivatives only for hedging and rebalancing.	No leverage permitted. Derivatives only for hedging and rebalancing.	Leverage permitted with gross exposure up to 200%.

than hedging and portfolio rebalancing. SIFs are allowed to sell shares without holding the underlying assets—termed as naked short positions—up to 25% of the portfolio. Some of the other strategies include covered call, bear put spread, short or long straddle, short or long strangle, pair trades and arbitrage, among others. These will be deployed selectively based on prevailing market conditions.

This deeper play on derivatives puts these funds on a different risk pedestal. Experts reckon these strategies are not sufficiently tried-and-tested in India. Sebi’s approval for SIFs presents an exciting direction, but expectations need to be realistic, insists Saurabh Nanavati, CEO, Invesco MF. “Historically, Indian markets haven’t rewarded short positions; there’s no strong record of managers generating consistent alpha from shorting,” Nanavati explains. Poor execution or misjudgments in short positions or hedges can hurt more than traditional long-only funds. Joseph remarks, “The strategy matters a lot; not all AMCs have experience managing long-short or derivative-heavy portfolios. Poor execution can erase the theoretical advantage.”

Further, SIFs will be afforded additional flexibilities compared to mutual funds. They can run more concentrated portfolios targeting niche themes and special situations. These will be allowed to invest up to 20% of the fund’s NAV in a single debt security and up to 15% in a single company’s shares, compared to 10% each in the case of an MF.

Sector-level and credit-rating exposure limits for debt securities are also enhanced. This further amplifies the risk-reward proposition of SIFs.

However, some contend these levers make SIFs a well-rounded vehicle, allowing for healthier outcomes than traditional investments. “The ability to capture returns on both sides of the market creates the potential for lower volatility and lesser draw-downs across bull, bear or range-bound markets,” observes Tandon, who maintains that SIFs are in fact more conservative than traditional long-only MFs. Niranjana Avasthi, Head – Product, Marketing and Digital at Edelweiss MF, insists, “It is a misperception that SIF is a high-risk, high-return investment. With the right risk protocols, usage of derivatives can reduce portfolio risk.” Avasthi acknowledges that taking naked shorts can backfire.

That is why Altiva SIF will avoid pursuing such bets and limit derivatives usage to covered calls and pair trades in its Hybrid Long-Short Fund. Running only moderate equity exposure, this fund will focus on arbitrage and fixed income as core strategies, enhanced by selective bets in special situations (open offer, merger, IPO, etc) and derivatives. It is aimed at income-oriented investors seeking slightly better returns than arbitrage funds. Meanwhile, qsi’s Equity Long-Short Fund will run an unconstrained, market capitalisation agnostic portfolio featuring long and short bets via



SIF will take risk up a few notches

These will allow investors to take bets on any market scenario, not just limited to a rising market.

	MF	SIF
Derivatives exposure	Limited to hedging, portfolio rebalancing	Naked shorts up to 25% of portfolio (permitted for taking unhedged market exposure)
Single company equity exposure	Up to 10% of NAV	Up to 10% of NAV
Single company debt exposure	Up to 10% of NAV	Up to 20% of NAV
Single sector debt exposure	Up to 20% of NAV	Up to 25% of NAV
Single company credit risk based exposure	AAA - 10% of NAV	AAA - 20% of NAV
	AA - 8% of NAV	AA - 16% of NAV
	A and below - 6% of NAV	A and below - 12% of NAV
InVIT exposure (aggregate)	Up to 10% of NAV	Up to 20% of NAV
InVIT exposure (single issuer)	Up to 5% of NAV	Up to 10% of NAV

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extensive usage of derivative strategies. It will be powered by its proprietary investment framework that harnesses high-frequency analytics to go long on winners, short on laggards and curb drawdowns.

To be sure, some of the strategies will work better in specific market conditions only. For instance, an equity-oriented long-short SIF can be expected to outperform in a phase of market correction, consolidation and high volatility. However, it may sharply underperform long-only strategies in a raging bull market. Hybrid long-short funds, which can shift asset allocation between equity and fixed income, could help further reduce drawdowns during bear or sideways markets. These may yet underperform during sharp bear markets or highly volatile markets.

Additionally, SIF may face liquidity constraints due to the varying redemption frequencies across strategies, as allowed by the regulator. Hybrid long-short funds, for instance, are allowed a redemption

frequency of two days a week, or any lesser frequency. Debt long-short funds typically offer redemption only once a week, or less frequently. Some SIFs may even have lock-in periods or restricted redemption windows, disclosed in the scheme documents.

Should you invest?

SIFs are positioned tantalisingly at the intersection of MFs and PMSes or AIFs. With a ₹10 lakh ticket size, these fall within the grasp of the mass affluent while offering another alternative to those with deep pockets. The community of retail investors—often pining for exotic investment strategies reserved for the elite few—may find that the gates of the forbidden forest are now open to them.

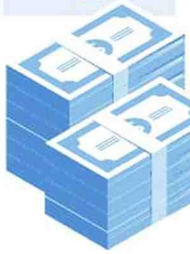
However, advisers warn against seeking adventurism in an unproven product. “Investing in something untested, no doubt, is glamorous, but it could also unnecessarily increase risks. So, consider SIFs later once they have established some credibility as a concept and have demonstrated desirable investment outcomes,” cautions Dev Ashish, Founder, StableInvestor. Even if you can afford the ₹10 lakh outlay, the underlying strategies may not suit your risk appetite. Existing mutual fund offerings are well equipped to meet most individuals’ financial goals, experts say.

“Shorting by itself cannot be the foundation of long-term wealth creation. It can be a tactical tool in the hands of professionals. However, for investors, the core wealth still has to come from compounding businesses and disciplined asset allocation,” insists

Long-short playbook of SIF will work in specific market phases

Phase of equity markets	Long-only equity strategies	Long-short equity strategies
Raging bull market	👍	👎
Bull market	👍	👍
Correction & consolidation	👍	👍
Range-bound market	👍	👍
Bear market	👎	👍
Volatile market	👍	👍

- 👍 Outperformance
- 👍 Moderate performance
- 👎 Underperformance



SOURCE: qsi

Pallav Bagaria, Director at Sapient Finserv. He remarks that these products are most suitable for investors who already have a core portfolio of mutual funds and are now looking to complement it with differentiated strategies. Savvy investors armed with a higher risk appetite may pursue this as an avenue for diversification. “Investors who usually don’t want to shell out ₹1 crore and above in a single strategy should keenly look at SIFs for the tax efficiency over AIFs,” suggests Thomas.

sanket.dhanorkar@timesofindia.com